

**REPORT OF THE AUDIT OF THE
FORMER ROCKCASTLE COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES**

May 26, 2006



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER ROCKCASTLE COUNTY SHERIFF'S SETTLEMENT - 2005 TAXES

May 26, 2006

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2005 Taxes as of May 26, 2006 for the former Rockcastle County Sheriff. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected \$2,457,602 for the districts for 2005 Taxes, retaining commissions of \$101,538 to operate the Sheriff's office. The former Sheriff distributed \$2,352,216 to the districts for 2005 Taxes. Taxes of \$2,786 are due to the districts from the former Sheriff and refunds of \$154 are due the former Sheriff from the taxing districts.

Report Comment:

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

John R. Farris, Secretary

Finance and Administration Cabinet

Honorable Buzz Carloftis, Rockcastle County Judge/Executive

Honorable Darrell Doan, Former Rockcastle County Sheriff

Honorable Michael E. Peters, Rockcastle County Sheriff

Members of the Rockcastle County Fiscal Court

Independent Auditor's Report

We have audited the former Rockcastle County Sheriff's Settlement - 2005 Taxes as of May 26, 2006. This tax settlement is the responsibility of the former Rockcastle County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Rockcastle County Sheriff's taxes charged, credited, and paid as of May 26, 2006, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated March 16, 2007 on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Ernie Fletcher, Governor

John R. Farris, Secretary

Finance and Administration Cabinet

Honorable Buzz Carloftis, Rockcastle County Judge/Executive

Honorable Darrell Doan, Former Rockcastle County Sheriff

Honorable Michael E. Peters, Rockcastle County Sheriff

Members of the Rockcastle County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Former Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

March 16, 2007

ROCKCASTLE COUNTY
DARRELL DOAN, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2005 TAXES

May 26, 2006

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 218,049	\$ 287,048	\$ 1,191,803	\$ 391,294
Tangible Personal Property	14,042	18,100	73,369	78,025
Intangible Personal Property				21,426
Fire Protection	1,677			
Increases Through Exonerations	69	91	378	124
Franchise Taxes	38,488	50,038	202,271	
Additional Billings	73	95	395	130
Unmined Coal	212	275	1,142	375
Limestone, Sand and Mineral Reserves	132	171	712	234
Penalties	2,392	3,094	12,843	4,303
Adjusted to Sheriff's Receipt	<u>2,870</u>	<u>(129)</u>	<u>(504)</u>	<u>(187)</u>
Gross Chargeable to Sheriff	278,004	358,783	1,482,409	495,724
<u>Credits</u>				
Exonerations	2,209	2,906	12,064	4,733
Discounts	3,030	3,902	16,175	6,596
Delinquents:				
Real Estate	9,397	12,370	51,362	16,863
Tangible Personal Property	616	756	3,070	2,099
Intangible Personal Property				615
Franchise Taxes	<u>1,072</u>	<u>1,768</u>	<u>5,715</u>	
Total Credits	<u>16,324</u>	<u>21,702</u>	<u>88,386</u>	<u>30,906</u>
Taxes Collected	<u>261,680</u>	<u>337,081</u>	<u>1,394,023</u>	<u>464,818</u>
Less: Commissions *	<u>11,409</u>	<u>14,326</u>	<u>55,761</u>	<u>20,042</u>
Taxes Due	<u>250,271</u>	<u>322,755</u>	<u>1,338,262</u>	<u>444,776</u>
Taxes Paid	<u>250,282</u>	<u>321,557</u>	<u>1,336,124</u>	<u>444,253</u>
Refunds (Current and Prior Year)	<u>66</u>	<u>160</u>	<u>467</u>	<u>523</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	<u>\$ (77)</u>	<u>\$ 1,038</u>	<u>\$ 1,671</u>	<u>\$ 0</u>

* and ** See Next Page.

The accompanying notes are an integral part of this financial statement.

ROCKCASTLE COUNTY
DARRELL DOAN, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2005 TAXES
May 26, 2006
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,053,579
4% on	\$	1,394,023

** Special Taxing Districts:

Library District	\$	810
Health District		<u>(77)</u>
Extension District		18
Soil Conservation District		<u>287</u>

Due Districts or (Refund Due Sheriff)	\$	<u><u>1,038</u></u>
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ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT

May 26, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT
As Of May 26, 2006
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of May 26, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2005. Property taxes were billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 26, 2005 through May 26, 2006.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2005. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 24, 2006 through May 26, 2006.

Note 4. Interest Income

The former Rockcastle County Sheriff earned \$697 as interest income on 2005 taxes. As of March 16, 2007, the former Sheriff overpaid and was due a refund of \$125 in interest from the school district and \$112 in interest from his fee account.

Note 5. Sheriff's 10% Add-On Fee

The former Rockcastle County Sheriff collected \$20,073 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The former Rockcastle County Sheriff collected \$1,095 of advertising costs and \$1,282 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The former Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

COMMENT AND RECOMMENDATION

ROCKCASTLE COUNTY
DARRELL DOAN, FORMER SHERIFF
COMMENT AND RECOMMENDATION

As of May 26, 2006

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Former Sheriff's Office Lacked Adequate Segregation Of Duties

The former Sheriff's office lacked adequate segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official had limited options for establishing an adequate segregation of duties. Management considered the additional costs when setting total employee salary limitation, and decided to limit the number of personnel, and therefore accept the risk for a lack of adequate segregation of duties. The former Sheriff could have implemented compensating controls to offset this internal control weakness.

Former Sheriff's Response: No Response.

PRIOR YEAR:

The Sheriff's Office Lacks Adequate Segregation Of Duties – Repeated

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Buzz Carloftis, Rockcastle County Judge/Executive
Honorable Darrell Doan, Former Rockcastle County Sheriff
Honorable Michael E. Peters, Rockcastle County Sheriff
Members of the Rockcastle County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the former Rockcastle County Sheriff's Settlement - 2005 Taxes as of May 26, 2006, and have issued our report thereon dated March 16, 2007. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Rockcastle County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Rockcastle County Sheriff's Settlement-2005 Taxes as of May 26, 2006 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

March 16, 2007

